

**CHARTER TOWNSHIP OF HARRISON
EMPLOYEES' RETIREMENT SYSTEM**
Charter Township of Harrison, Michigan

**FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
DECEMBER 31, 2007**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



**CHARTER TOWNSHIP OF HARRISON
EMPLOYEES' RETIREMENT SYSTEM**

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Basic Financial Statements:	
Statement of Plan Net Assets	2
Statement of Changes in Plan Net Assets	3
Notes to Financial Statements	4
Supplementary Information	
Schedule of Funding Progress	9
Schedule of Employer Contributions	10

Employees' Retirement Board
Charter Township of Harrison
Employees' Retirement System

We have audited the accompanying Statement of Plan Net Assets of the **Charter Township of Harrison Employees' Retirement System** (a fund of the Charter Township of Harrison, Michigan) as of December 31, 2007, and the Related Statement of Changes in Plan Net Assets for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Harrison, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Employees' Retirement System Pension and do not purport to, and do not present fairly the financial position of the Charter Township of Harrison, Michigan, as of December 31, 2007, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the **Charter Township of Harrison Employees' Retirement System** as of December 31, 2007, and the changes in the financial status for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.


Certified Public Accountants

May 13, 2008

**CHARTER TOWNSHIP OF HARRISON
EMPLOYEES' RETIREMENT SYSTEM**

**STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2007**

Assets:

Cash and Cash Equivalents	<u>\$ 332,309</u>
Investments, at fair value -	
U.S. Treasury and Agency Securities	2,691,237
Mortgage & Asset Backed Securities	572,604
Corporate Debt	694,010
International Bonds	14,664
Common Stock	7,480,352
Open End Mutual Funds	1,192,537
Closed End Mutual Funds (Foreign Equities)	<u>832,707</u>
	<u>13,478,111</u>
Receivables -	
Employer Contributions	30,821
Interest and Dividend Receivable	<u>23,363</u>
	<u>54,184</u>
Total Assets	<u>13,864,604</u>

Liabilities:

Pending Trades	<u>10,664</u>
----------------	---------------

Net Assets Held In Trust For Pension Benefits	<u><u>\$ 13,853,940</u></u>
--	-----------------------------

The "Schedule of Funding Progress" is presented in the supplementary information

The accompanying notes are an integral part of the financial statements.

**CHARTER TOWNSHIP OF HARRISON
EMPLOYEES' RETIREMENT SYSTEM**

**STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Additions:

Investment Income -	
Net appreciation in fair value of investments	\$ 1,146,266
Interest and dividends	<u>333,052</u>
	1,479,318
Less investment expense	<u>(60,769)</u>
Net investment income	<u>1,418,549</u>
Contributions -	
Employer contribution	435,838
Employee contribution	<u>98,904</u>
	<u>534,742</u>
Total Additions	1,953,291

Deductions:

Benefit payments and refunds to participants	<u>881,342</u>
--	----------------

Net Increase in net assets available for pension benefits	1,071,949
--	-----------

Net Assets Held in Trust For Pension Benefits -

Beginning of year	<u>12,781,991</u>
End of year	<u><u>\$ 13,853,940</u></u>

The accompanying notes are an integral part of the financial statements.

CHARTER TOWNSHIP OF HARRISON EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 1 - DESCRIPTION OF PLAN:

The following brief description of the Charter Township of Harrison Employees' Retirement System (the "System") is provided for general information purposes only. Participants should refer to the System agreement or direct inquiries to the System administrator for more complete information.

General -

The Charter Township of Harrison Employees' Retirement System (the "System") is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Employees' Retirement System Pension Board; this Plan covers substantially all full-time employees (except firemen) of the Charter Township of Harrison. The System's financial statements are also included in the government-wide financial statements of the Charter Township of Harrison (the "Township") as a pension trust fund.

The System provides retirement, disability, and death benefits to Plan members and their beneficiaries in accordance with the Township's pension ordinance. At December 31, 2006, membership consisted of 38 retirees and beneficiaries currently receiving benefits, 10 inactive employees entitled to benefits, but not yet receiving them, and 40 current active employees.

The System is to be administered as a qualified pension plan under Section 401 of the Internal Revenue Code, as amended, and that the Trust be an exempted organization under Section 501 of the Internal Revenue Code.

The Plan provides eligible participants with retirement benefits as well as disability benefits. All retirement benefits fully vest after age 55, with 8 years of service, or completion of 25 years of services, whichever is earliest. Once vested, employees are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.5% of final average compensation (FAC) times first 25 years of service plus 1% of FAC times years of service in excess of 25 years.

At December 31, 2006, the Plan Participants consisted of:

Retirees and beneficiaries currently receiving benefits	38
Terminated plan members entitled to but not yet receiving benefits	10
Active plan members	<u>40</u>
Total	<u><u>88</u></u>

Party-in-interest -

Certain System investments were shares in funds managed by Smith Barney Money Market Funds, an affiliated company of Citigroup, which was the Trustee as defined by the System and therefore those transactions qualified as party-in-interest.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting – The System uses the accrual method of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan.

CHARTER TOWNSHIP OF HARRISON EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, disclosure of contingent asset and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

Investment Valuation and Income Recognition – The System's investments are stated at quoted market prices, if available. Investments that have no quoted market price are stated at estimated fair market value as determined by the Trustee. Securities traded on a national exchange are valued at the last reported sales price.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis.

Actuarial Present Value of Accumulated Plan Benefits – Accumulated plan benefits are those future periodic payments including lump-sum distributions that are attributable under the System's provisions to the services employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the System are based on employees' compensation during their last three years of credited service. The accumulated plan benefits for active employees are based on their average compensation during the three years ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances, retirement, death, disability, and termination of employment, are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of accumulated plan benefits is determined by an actuary from the Gabriel Roeder Smith and Company. That amount results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The foregoing actuarial assumptions are based on the presumption that the System will continue. If the System were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Required Contribution – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5% gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 18.74% of covered payroll.

Net Appreciation (Depreciation) in Fair Value of Investments – Net realized and unrealized appreciation (depreciation) is recorded in the accompanying financial statements as net appreciation (depreciation) in fair value of investments.

**CHARTER TOWNSHIP OF HARRISON
EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 3 - CASH AND INVESTMENTS:

State of Michigan statutes authorize the System to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration, respectively, and in commercial paper of corporations located in the State rated prime by at least one of the standard rating services. The System is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds comprised of investments as outlined above. The System's investment policy allows for all of these types of investments. The System is also allowed to invest in corporate stocks and bonds. Investments of the System are subject to a number of restrictions as to type, quality and concentration of investments.

The System's investments are reported at fair value and are held in a trust fund administered by Smith Barney.

The System's deposits and investments are included on the Statement of Plan Net Assets under the following classifications as of December 31, 2007:

Cash and cash equivalents	\$ 332,309
Investments	<u>13,478,111</u>
	<u>\$ 13,810,420</u>

The above investment amount is categorized as follows at December 31, 2007:

U.S. Treasury and Agency Securities	\$ 2,691,237
Mortgage/Asset Backed Securities	572,604
Corporate Debt	694,010
International Bonds	14,664
Stock/Equity	7,480,352
Open End Mutual Funds	1,192,537
Closed End Mutual Funds	<u>832,707</u>
	<u>\$ 13,478,111</u>

Credit Risk – Investments – is the risk that an issuer of or other counterparty to an investment will not fulfill its obligations.

CHARTER TOWNSHIP OF HARRISON EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 3 - INVESTMENTS - (cont'd):

The Harrison Township Employees Pension System specifies that all debt securities must have a qualifying rating of BBB (or equivalent) or above by one of the major rating agencies at the time of issue.

Investments	Fair Market Value	Rating	Rating Organization
Corporate Debt	\$ 36,557	AAA	S & P
Mortgage and Asset Backed Securities	572,604	AAA	S & P
Corporate Debt	55,103	AA	S & P
Corporate Debt	30,568	AA-	S & P
Corporate Debt	37,502	A+	S & P
Corporate Debt	69,590	A	S & P
Corporate Debt	101,782	A-	S & P
Foreign Bond	14,664	A-	S & P
Corporate Debt	176,896	BBB+	S & P
Corporate Debt	121,457	BBB	S & P
Corporate Debt	23,603	BBB-	S & P
Corporate Debt	40,952	A1	Moody's

Custodial Credit Risk – Investments – is the risk that in the event of the failure of the counterparty, the System may not be able to recover the value of its investments that are in the possession of another party. The System's policy requires that securities may be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. As of December 31, 2007, \$13,478,111 of investments were held in third-party safekeeping not in the System's name; however, they were evidenced by safekeeping receipts.

Concentration of Credit Risk – Investments – is the risk of loss attributed to the magnitude of the System's investment in a single issuer.

The Harrison Township Employees' Pension System requires that certain minimums and maximums may be invested in any asset class (Equities, Fixed Income Securities, and Cash and Cash Equivalents). Also, securities of any one company should not exceed 5% of the total fund, and no more than 20% of the fund should be invested in any one industry, with the exception of securities issued by the U.S. Government, its agencies, government sponsored enterprises, and mutual funds, which are excluded from this requirement.

Interest Rate Risk – Investments – is the risk that the value of investments will decrease as a result of a rise in the interest rates. The investment policy adopted by the Township for the primary government specifies the investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycle taking into account the investment risk contracts and cash flow characteristics of the portfolio. At year end, the Township's investments had the following range of maturity dates:

Investment Type	Fair Value	Maturity (Years)			
		<1	1-5	6-10	>10
U.S. Treasury and Agency Securities	\$ 2,691,237	\$ -	\$ 67,473	\$ 280,615	\$ 2,343,149
Mortgage and Asset Backed Securities	572,604	-	116,377	-	456,227
Corporate Debt	694,010	35,478	333,785	226,087	98,660
International Bonds	14,664	-	-	-	14,664
Total	<u>\$ 3,972,515</u>	<u>\$ 35,478</u>	<u>\$ 517,635</u>	<u>\$ 506,702</u>	<u>\$ 2,912,700</u>

**CHARTER TOWNSHIP OF HARRISON
EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 4 - ACTUARIAL ASSUMPTIONS:

The following assumptions were used to determine the actuarial present value of accumulated plan benefits for December 31, 2006:

Actuarial Cost Method	Entry-Age
Amortization Period	25 years
Assumed Rate of Return on Investments	7.0 %
Mortality Basis	1971 Group Annuity Mortality
Projected Salary Increases	5.0 % - 8.8 %
Cost-of-Living Adjustment - AFSCME	None
- Supervisory	10% after 5 years, 10% after 10 years

NOTE 5 - RESERVE OF NET ASSETS:

As of December 31, 2007, the System reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,381,796
Reserve for employer's contributions	2,863,097
Reserve for retired benefit payments	<u>9,609,047</u>
	<u>\$ 13,853,940</u>

NOTE 6 - RISKS AND UNCERTAINTIES:

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subjected to change. Due to uncertainties inherent in the estimations and assumptions, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

SUPPLEMENTARY INFORMATION

**CHARTER TOWNSHIP OF HARRISON
EMPLOYEES' RETIREMENT SYSTEM**

**SUPPLEMENTARY INFORMATION
(Unaudited)**

Schedule of Funding Progress

Actuarial Valuation Date (December 31)	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Attained Age	(b-a) Unfunded Actuarial Accrued Liability (Asset)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a/c) UAAL as a % of Covered Payroll
12/31/1998	\$ 8,901,842	\$ 9,334,519	\$ 432,677	95.4%	\$ 2,001,643	21.6%
12/31/1999	9,508,833	10,065,818	556,985	94.5%	2,076,516	26.8%
12/31/2000	10,086,683	10,584,130	497,447	95.3%	2,129,790	23.4%
12/31/2001	10,603,709	11,437,172	833,463	92.7%	2,271,123	36.7%
12/31/2002	10,851,905	12,188,641	1,336,736	89.0%	2,544,024	52.5%
12/31/2003	11,274,486	12,823,259	1,548,773	87.9%	2,292,453	67.6%
12/31/2004	11,702,984	13,502,202	1,799,218	86.7%	1,793,292	100.3%
12/31/2005	11,925,599	14,588,605	2,663,006	81.7%	1,899,436	140.2%
12/31/2006	12,422,920	15,097,569	2,674,649	82.3%	2,022,252	132.3%

**CHARTER TOWNSHIP OF HARRISON
EMPLOYEES' RETIREMENT SYSTEM**

**SUPPLEMENTARY INFORMATION
(Unaudited)**

Schedule of Employer Contributions

<u>Fiscal Year Ended (December 31)</u>	<u>Pension Cost</u>	<u>Actual Annual Contribution</u>	<u>Percent Contributed</u>
1998	\$ 302,880	\$ 302,880	100.00%
1999	315,935	315,935	100.00%
2000	329,489	329,489	100.00%
2001	370,395	370,395	100.00%
2002	437,514	437,514	100.00%
2003	312,506	312,506	100.00%
2004	330,751	330,751	100.00%
2005	314,665	314,665	100.00%
2006	353,259	353,259	100.00%
2007	435,838	435,838	100.00%